

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 PM-03 INR-07 L-03 ACDA-05

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EB-07 MC-02 OMB-01 SS-15 NSC-05 COME-00 H-02 /074 W

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TO SECSTATE WASHDC 2699

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INFO ALL NATO CAPITALS 5368

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E.O. 11652: N/A

TAGS: MPOL, NATO

SUBJ: VISIT OF MR. THOMAS A. CALLAGHAN, JR.

REFS: A. STATE 40510; B. STATE 126809; C. USNATO 3241; D. USNATO
2764

BEGIN SUMMARY. MESSAGE REPORTS RESULTS OF MR. THOMAS CALLAGHAN'S
SECOND VISIT TO EUROPE. END SUMMARY.

1. MR. THOMAS A. CALLAGHAN, JR. VISITED MISSION UNDER USG
AUSPICES IN MAR 75 (REF A) AND AGAIN IN JUN 75 (REF B).

2. CALLAGHAN VISITED UK TWICE DURING THE PERIOD 717 JUNE.
MISSION WOULD APPRECIATE LONDON VIEWS (IF APPROPRIATE) ON
VALUE OF CALLAGHAN VISITS TO UK.

3. IN BRUSSELS CALLAGHAN ATTENDED THE MEETINGS OF THE
NATO INDUSTRIAL ADVISORY GROUP (NIAG) ON 9-10 JUN 75
(REPORTED REF C). AS NOTED IN REF C, THE NIAG CHARGED
MR. S. PETERSEN (DENMARK) WITH CONDUCTING A THOROUGH
REVIEW OF RECOMMENDATIONS CONTAINED IN THE CALLAGHAN
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REPORT. THE NIAG WILL CONSIDER PETERSEN'S REVIEW IN
THE AUTUMN OF 1975.

4. IN PREPARATION FOR THE DRG SEMINAR ON COOPERATION

IN R&D, AND SPECIFICALLY AT THE REQUEST OF NATO HEAD OF DEFENSE RESEARCH (GEN. NASLIN), WE MAILED COPIES OF THE CALLAGHAN REPORT TO EACH MEMBER OF THE DRG FOR BACKGROUND READING. DURING THE DRG SEMINAR SEVERAL SPEAKERS REFERRED TO CALLAGHAN'S REPORT, BUT THERE WAS NO OPPORTUNITY FOR DISCUSSION OF HIS PROPOSALS FOR COOPERATION WITHIN NATO.

5. CALLAGHAN ALSO ATTENDED A MEETING OF THE DEFENSE INDUSTRY ADVISORY GROUP-EUROPE (DIAGE) AT USNATO ON 17 JUN. FOLLOWING SUBPARAGRAPHS CONVEY GENERAL FLAVOR OF DIAGE REACTION TO CALLAGHAN PROPOSALS.

A. US/EUROPEAN COOPERATION IMPLIES POLITICAL STABILITY. YET COUNTRIES SUCH AS ITALY, PORTUGAL, GREECE AND TURKEY ALL PRESENT INCREASING PROBLEMS IN THIS REGARD.

B. IF THE US AND NATO STANDARDIZE FORCES FOR EUROPE IT IMPLIES THAT THE US MUST DESTANDARDIZE SOME OF THE US EQUIPMENT SUITABLE FOR ITS OTHER COMMITMENTS. THERE WAS NO CONSENSUS ON THIS POINT, BUT THE QUESTION REMAINS OPEN.

C. ALL OF THE ALLIES HAVE DIFFERENT POLICIES WITH RESPECT TO THIRD COUNTRY SALES. IT WILL BE VERY DIFFICULT TO OBTAIN COOPERATION IN THIS SENSITIVE AREA.

D. A VERITABLE MAZE OF CONFLICTING REGULATIONS AMONG EUROPEAN NATIONS CONFRONT US CONTRACTORS TRYING TO DO BUSINESS WITH EUROPEAN DEFENSE SUBCONTRACTORS. US EXPORT LICENSE AND INDUSTRIAL SECURITY REGULATIONS COMPOUND THE PROBLEM.

E. EUROPEAN INDUSTRIES SIMPLY CANNOT COMPETE WITH THE UNITED STATES IN PRICE BECAUSE:

(1) HEAVY SOCIAL WELFARE BURDEN ON INDUSTRY;
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CAUSES PACKAGE COST PER WORKER TO BE HIGHER IN EUROPE THAN IN THE US. EUROPEAN INDUSTRY CANNOT FIRE WORKERS (PARTICULARLY PROFESSIONALS) AS READILY AS US COUNTERPARTS.

(2) OUTDATED MANAGEMENT PRACTICES AND ANTI-QUATED PRODUCTION LINES HAMPER EUROPEAN INDUSTRY. THERE ARE EXAMPLES, HOWEVER, WHICH DEMONSTRATE THAT INFUSION OF GOOD MANAGEMENT TECHNIQUES AT ALL LEVELS COUPLED WITH APPROPRIATE PLANT MODERNIZATION CAN KEEP EUROPEAN INDUSTRY HIGH TECHNOLOGY PRODUCTION LINES AT ACCEPTABLE COST LEVELS. RAYTHEON AND THE NATO-HAWK EUROPEAN SUBCONTRACTORS IN THE NATO-HAWK IMPROVEMENT PROGRAM PROVIDE A CURRENT ILLUSTRATION OF THIS POINT.

(3) THERE IS A LACK OF PROCE COMPETITION IN EUROPE AMONG LIKE INDUSTRIES. GENERAL ELECTRIC REP NOTED THAT SIEMENS ELECTRICAL EQUIPMENT COSTS 2.5 TIMES AS MUCH AS COMPARABLE US EQUIPMENT.

(4) EUROPEAN INDUSTRY OBJECTIVES DIFFER FROM OURS. EUROPEANS EMPHASIZE EMPLOYMENT FOR THEIR WORKERS; EXPORTS AND THIRD COUNTRY SALES (WITH RESULTING FAVORABLE BOP EFFECTS); ADVANCES IN THEIR NATIONAL R&D CAPABILITIES; AND, PROBABLY LAST, CONTRIBUTION TO THE NATIONAL DEFENSE. THIS ATTITUDE INEVITABLY HELPS INCREASE THE COSTS OF ITEMS FOR DEFENSE PURPOSES.

(5) DESPITE CALLAGHAN'S ARGUMENT THAT IN THE CIVIL SECTOR (VERSUS ADMITTEDLY LESS EFFICIENT GOVERNMENT PROCUREMENT) EUROPE COULD COMPETE WITH THE UNITED STATES, THE DIAGE CONSENSUS WAS THAT EUROPE WAS NONCOMPETITIVE IN PRICE IN CIVIL AND GOVERNMENT PROCUREMENT SECTORS, WITH DEFENSE PRODUCTS THE WORSE OF THE TWO. AS POINTED OUT BY ONE DIAGE REP, THE PROBLEMS DISCUSSED LIE AT THE HEART OF THE ALLIANCE AND WILL NOT BE RESOLVED EASILY.

(6) FINALLY, THE DOLLAR EXCHANGE RATE AGAINST MAJOR EUROPEAN CURRENCIES HAS PLACED AN IMPOSSIBLE HANDICAP ON AN ALREADY IMBALANCED PRODUCTION COST SITUATION WITHIN EUROPE. THE DOLLAR EXCHANGE RATE AFFECTS ALL SECTORS OF THE ECONOMY.

MISSION COMMENT: WE AGREE WITH THE MAJORITY OF THE DIAGE THAT THE PROBLEMS HIGHLIGHTED ABOVE ARE LIMITED OFFICIAL USE
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SERIOUS AND DESERVE TOP-LEVEL ATTENTION. FROM OBSERVATIONS BROUGHT OUT IN THIS MEETING, IT APPEARS THAT THE EUROPEAN INCREASINGLY RECOGNIZE THE NEED FOR THEM TO ADDRESS THE ISSUE OF NONCOMPETITIVE EUROPEAN INDUSTRY, PROBABLY THE SINGLE MOST SERIOUS OBSTACLE TO GETTING US TO COMMIT ITSELF TO BUYING EUROPEAN. GIVEN THE CURRENT DOLLAR/DEUTSCHMARK EXCHANGE RATE, AND THE IMPROBABILITY OF SIGNIFICANT INCREASE IN THE DOLLAR STRENGTH IN THE FORESEEABLE FUTURE, THE SOLUTION DOES NOT APPEAR EASY.
END COMMENT.

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6. MR. CALLAGHAN STATED PRIOR TO HIS DEPARTURE THAT HE WAS SATISFIED WITH THE RESULTS OF THE TRIP AND FELT THAT HE HAD LEARNED MORE ABOUT THE PROBLEMS IN ACHIEVING VASTLY IMPROVED ALLIANCE COOPERATION IN A PRACTICAL PERIOD OF TIME.

7. WE UNDERSTAND THAT THE INTERNATIONAL INSTITUTE OF STRATEGIC STUDIES HAD PUBLISHED A SUMMARY OF THE CALLAGHAN REPORT IN THE MAY-JUNE ISSUE OF SURVIVAL. WE WILL OBTAIN COPIES AND PROVIDE COMMENTS IF APPROPRIATE. ALSO FOR WASHINGTON INFORMATION, THE BBC ON ITS PANORAMA PROGRAM HAS PREPARED A 50-MINUTE DOCUMENTARY ENTITLED "THE PRICE OF PEACE" WHICH RAN 17 JUNE IN ENGLAND AND WAS SHOWN AT NATO HQ ON CLOSED CIRCUIT TELEVISION ON 1 JULY. THE DOCUMENTARY EMPHASIZES THE NECESSITY FOR STANDARDIZATION AND INCLUDES EXCELLENT SPOT PRESENTATIONS BY SECDEF SCHLESINGER, UK DEFENSE MINISTER MASON, SEC GEN LUNS, NATO ASST SEC GEN FOR DEFENSE SUPPORT TUCKER, GENERAL GOODPASTER, ADMIRAL HILL-NORTON, SENATOR NUNN, MR. CALLAGHAN, AND OTHERS. BRUCE

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